

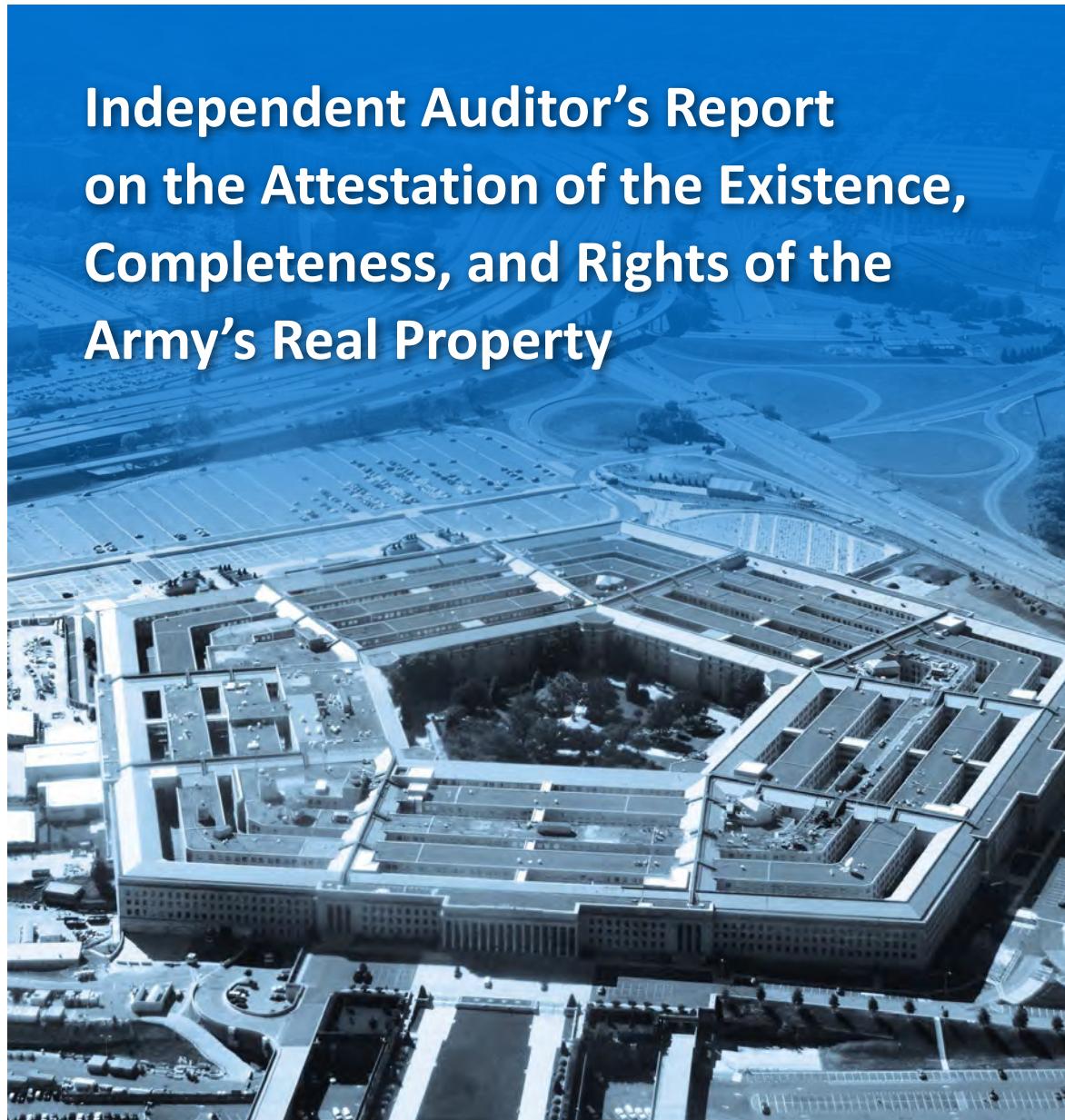


INSPECTOR GENERAL

U.S. Department of Defense

SEPTEMBER 2, 2015

Independent Auditor's Report on the Attestation of the Existence, Completeness, and Rights of the Army's Real Property



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**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

September 2, 2015

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)**

**SUBJECT: Independent Auditor's Report on the Attestation of the Existence, Completeness,
and Rights of the Army's Real Property (Report No. DODIG-2015-166)**

We are providing this report for your information and use. No written response to this report was required, and none was received. Therefore, we are publishing this report in its final form. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

Lorin T. Venable
Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

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Audit Opinion

We examined management's assertion of audit readiness¹ for the existence, completeness, and rights of select Department of the Army real property (RP), including buildings, structures, and linear structures, as of September 30, 2014. The assertion excluded capital leases, land, leasehold improvements, Defense Logistics Agency-hosted sites, construction-in-progress, U.S. Army Central assets, disposed assets, and to-be-acquired assets. The Army asserted to the existence and completeness of the RP balances reported in the Army's financial statements.² Army management is responsible for its assertion of audit readiness. Our responsibility is to express an opinion on the assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards, as stated in the Government Accountability Office's "Government Auditing Standards," December 2011. Those standards require us to examine, on a test basis, evidence supporting the Army's assertion of audit readiness of the existence, completeness, and rights of its RP assets and perform other procedures we consider necessary. We believe that our examination provides a reasonable basis for our opinion on management's assertion.

We performed our examination using information provided by Army personnel and observations made at 31 Army installations. The General Fund Enterprise Business System and the Planning Resource for Infrastructure Development and Evaluation system are the Army's primary accountable property systems of record (APSRs) for RP assets. As of September 30, 2014, the Army RP assertion universe (the universe) consisted

¹ Audit readiness in accordance with the November 2013 DoD Financial Improvement and Audit Readiness Guidance Wave 3 Mission Critical Asset Existence and Completeness Audit.

² The Army did not assert to the valuation (accuracy) of the RP assets. Our examination determined whether the value of the assets the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) personnel stated were reported on the financial statements matched the values in the FY 2014 Army Trial Balances; we did not determine whether these amounts were correct.

of 281,535 assets for which it was accountable.³ We tested a nonstatistical sample of 1,890 assets for existence, 455 assets for completeness, and 2,345 assets for rights. There were 1,824 of 1,890 sample assets that passed existence testing and 440 of 455 sample assets that passed completeness testing.

During our examination, we identified a deficiency in the Army's ability to support rights to the RP assets for which it was accountable. The Army must be able to document rights of the assets in the APSRs to ensure the assets are reported correctly on the financial statements. Specifically, Installation personnel could not support rights for 216 of the 2,345 sample assets tested. Installation personnel:

- Could not provide documentation to identify who had rights to 154 assets, as of September 30, 2014. Without support for who has rights to the asset, DoD activities are at risk of duplicate reporting of an asset.
- Provided documentation for 50 assets that did not support the entity indicated in the APSR as having rights. For example, the APSR indicated the Federal government had rights to an asset, but the documentation showed that a private entity or a foreign government had the rights to the asset.
- Could not provide transfer and acceptance documentation that had the required signature to support the Army's rights for 12 assets. Army personnel accepted accountability for the asset by signing the transfer and acceptance documentation.

A memorandum of agreement or understanding, which clearly documents who has rights to an asset and who is responsible for financial reporting, control, sustainment, and operations of the assets, could provide rights support for future audits.

We also identified deficiencies with the universe. The DoD Financial Improvement and Audit Readiness (FIAR) Directorate, in the November 2013 FIAR Guidance, identified the need to have a complete population and the ability to reconcile the population to the general ledger and financial statements as a key capability that must be achieved and sustained to demonstrate existence and completeness audit readiness. Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA[FM&C]) personnel did not provide:

- A universe with 7 of 16 data fields,⁴ related to the physical inventory control the Army relied on for this assertion, in the September 30, 2014, universe.⁵ It is important to ensure the data in these fields are accurate and reliable to manage the RP assets and for proper financial reporting.

³ Army Regulation 405-45, "Real Property Inventory Management," November 1, 2004, states that Army RP accountable officers are accountable for all buildings, structures, utilities, and land under the control of their commanders regardless of the type of ownership.

⁴ Data fields contain information required for financial statement and management reporting of assets. See the Appendix for data fields reviewed as part of this examination.

⁵ OASA(FM&C) personnel provided the information for these seven data fields after the site visits between December 2014 and April 2015. The Army could not provide information for these data fields as of September 30, 2014.

- A universe with the required RP unique identifiers⁶ for 3,656 of the 281,535 assets. In addition, 4,420 assets in the universe contained duplicate unique identifiers. A unique identifier helps determine whether the universe contains duplicate assets, which may overstate the population and the amount on the Army Financial Statements.
- A complete reconciliation of the assets in the universe to the RP balances on the FY 2014 Army Financial Statements. OASA(FM&C) personnel provided a list of 113,026 of the 281,535 assets they stated were reported in the FY 2014 Army General Fund and Working Capital Fund Financial Statements. The acquisition values for the listed assets did not match the amounts on the FY 2014 trial balances. Specifically, the Army Working Capital Fund amount was \$406.8 million more than the trial balance.

In addition, the list included 7,674 assets for which the Army did not have rights. As a result of including assets for which Army did not have rights, the General Property, Plant and Equipment was misstated by \$3.2 billion in the FY 2014 Army General Fund Financial Statements and by \$2.8 million in the FY 2014 Army Working Capital Fund Financial Statements.

In our opinion, except for the material deficiencies associated with rights documentation and the universe described in the preceding paragraphs, the Army's RP assets, as of September 30, 2014, are ready for audit in accordance with FIAR Guidance, Section 2.C.3, "Wave 3-Mission Critical Asset Existence and Completeness Audit."

Internal Controls

According to Office of Management and Budget Circular No. A-123, internal controls assure the safeguarding of assets from waste, loss, unauthorized use, or misappropriation, as well as compliance with laws and regulations. During our examination, we identified internal control deficiencies, but they did not preclude us from reaching an opinion on the Army's assertion. However, management should consider additional actions to improve the internal controls to ensure the sustainability of its processes in accounting for the existence, completeness, and rights of its RP assets.

FIAR Guidance requires effective controls over physical inventories; recording asset acquisitions, disposals, and transfers; and financial and management data in the APSR to demonstrate audit readiness. However, the Army only relied on controls over physical inventories. The Army based its assertion on substantive testing, the periodic physical inventory control, and supporting documentation in accordance with FIAR Guidance, for the period April 2013 to September 2014.

⁶ DoD Instruction 4165.14, "Real Property Inventory (RPI) and Forecasting," January 17, 2014, states that all unclassified RP assets must have a unique identifier.

Ineffective Physical Inventory Control

The Army's physical inventory control was not operating effectively. DoD Instruction 4165.14⁷ specifies minimum asset information that must be validated during physical inventories. During physical inventory counts, FIAR Guidance requires that entities support and verify key data fields in the APSR, that contain this minimum asset information, to ensure the information is recorded and accurate. See the Appendix for the 16 data fields reviewed as part of this examination.

Physical Inventory Review Date

Army personnel could not support the RP Asset Review Date, 1 of the 16 data fields reviewed, in the APSR for 1,085 of 2,329⁸ sample assets. The RP Asset Review Date should represent the date of the most recent physical inventory of the asset. Army Regulation 405-45 requires Commanders to ensure that a physical inventory of all RP is conducted at least once every 5 years, or every 3 years for heritage assets,⁹ and properly recorded. However, we identified that the RP Asset Review Date was blank in the APSR, had a date after the required timeframe, or the date did not match the timeframe as indicated in the inventory certification documentation.

Army personnel at the sites visited did not consistently perform or record physical inventories of RP. For example, Army personnel at one site recorded physical inventories in a database outside of the APSR and did not always update the RP Asset Review Date in the APSR after an inventory was performed. At another site, Army personnel indicated they did not know how to update the RP Asset Review Date in the APSR. In addition, some Installation personnel stated they did not have the resources to complete physical inventories and update the APSR as required for all RP assets.

Accurate RP Asset Review Dates in the APSR are necessary to ensure Army personnel schedule and perform timely physical inventories enabling them to maintain and report accurate information about the acquisition, management, and disposition of RP assets.

Asset Information Not Validated During Physical Inventory

Army personnel did not adequately validate asset information during physical inventories. Specifically, Army personnel did not accurately record the required information in the APSR for 9 of the remaining 15 data fields reviewed. See the Appendix for the results of our review of the 16 data fields. For example:

- 1,460 of 2,329 sample items reviewed did not have sufficient data in the APSR to identify the physical location of the asset. Because facility numbers were not

⁷ DoD Instruction 4165.14, "Real Property Inventory (RPI) and Forecasting," January 17, 2014.

⁸ We did not review the data fields for completeness sample items that failed completeness testing or were assets for which the Air Force was accountable, which excluded 16 items from review.

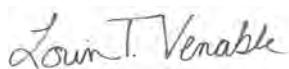
⁹ Heritage assets are items that are expected to be preserved indefinitely because these assets are unique for one or more of the following reasons: historical or natural significance, cultural, educational or artistic importance, or significant architectural characteristics.

displayed on all assets, specific and accurate location information was necessary to identify where the asset was physically located and to ensure that the observed asset was the asset identified in the APSR.

- 514 of 1,761¹⁰ sample items reviewed did not have sufficient documentation to support the RP Asset Total Unit of Measure Quantity. This quantity can be used to estimate the value of assets without documentation of original acquisition cost. The Army's assertion indicated that because the majority of the RP installations were established before 1960, supporting documentation dating back to this timeframe and beyond was destroyed in the normal course of business.
- 1,128 of 1,761 sample items reviewed did not have sufficient documentation to support the Placed-in-Service date in the APSR. The Army uses this date to determine the value of an asset reported on the financial statements.

The Army must ensure the APSR contains accurate and supported information for its RP assets to aid in achieving financial statement auditability and reliable financial information by September 30, 2017, as required by the National Defense Authorization Act.¹¹ Improving internal control processes will help the Army sustain auditable processes for future financial statement examinations.

We provided a discussion draft of this report to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; the Office of the Assistant Secretary of Defense, Energy, Installations, and Environment; and OASA(FM&C). This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Assistant Secretary of the Army (Financial Management and Comptroller) and is not intended to be used and should not be used by anyone else.



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¹⁰ We did not review all the data fields for assets which the Federal government did not have rights, which excluded 568 items from review. See the Appendix for a description of which data fields were reviewed for non-Federally owned assets.

¹¹ Public Law 111-84, "National Defense Authorization Act for Fiscal Year 2010," October 28, 2009.

Appendix

Data Fields Reviewed During the Examination

We reviewed the following 16 data fields to determine whether Army personnel accurately recorded the required information in the APSR.

Table. Data Fields Reviewed During the Examination

	Title	FIAR Guidance Definition	Data Fields Provided With Universe	Data Fields Excluded From Review		Number of Sample Items Failed/Reviewed
				Failed Completeness and Assets the Army is Not Accountable For	Assets the Federal Government Did Not Have Rights To	
1	RP Site Unique Identifier	A code used to permanently and uniquely identify a real property site.	X	X	X	0/1,761
2	RP Unique Identifier	A code used to permanently and uniquely identify real property individual assets.	X	X		11/2,329
3	Facility Number	A locally developed asset identifier that is normally visible, either painted or by signage, on the exterior of a real property facility, used for visual identification of the facility.	X	X	X	10/1,761
4	RP Asset Type Code	A code used to identify the type of real property asset (for example, building, structure, linear structure).	X	X	X	249/1,761
5	RP Asset Predominant Current Use Category Code	The Military Service category code that represents the current use of the asset.	X	X	X	52/1,761
6	Location	Consists of multiple fields to identify the physical address of the asset, including street name, street number, city/state, postal code, and country.	X	X		1,460/2,329

Table. Data Fields Reviewed During the Examination (cont'd)

	Title	FIAR Guidance Definition	Data Fields Provided With Universe	Data Fields Excluded From Review		Number of Sample Items Failed/Reviewed
				Failed Completeness and Assets the Army is Not Accountable For	Assets the Federal Government Did Not Have Rights To	
7	RP Total Unit of Measure Code	The total unit of measure for the asset as defined by the DoD Facility Analysis Category code (categories based on common function and unit of measure.)		X	X	1,491/1,761
8	RP Total Unit of Measure Quantity	The numerical amount of the unit of measure.		X	X	514/1,761
9	RP Asset Command Claimant Code	A code used to identify the Service organization that has direct command authority over a real property asset.		X	X	38/1,761
10	RP Asset Interest Type Code	A code used to identify the type of legal interest that DoD holds in an asset.	X	X		376/2,329
11	RP Asset Operational Status Code	A code used to identify the current operational status of the asset (for example, active, inactive).	X	X	X	109/1,761
12	RP Asset Placed-In-Service Date	Date which title of the asset transfers to the Component; or date asset is placed in service for constructed assets.	X	X	X	1,128/1,761
13	RP Asset Historic Status Code	A code used to identify the historical status of a real property asset.		X	X	227/1,761
14	RP Asset Historical Status Date	The calendar date that the real property asset historic status was determined in accordance with the corresponding historic status code.		X	X	352/1,761

Table. Data Fields Reviewed During the Examination (cont'd)

	Title	FIAR Guidance Definition	Data Fields Provided With Universe	Data Fields Excluded From Review		Number of Sample Items Failed/Reviewed
				Failed Completeness and Assets the Army is Not Accountable For	Assets the Federal Government Did Not Have Rights To	
15	Asset Review Date	The calendar date that the asset and its records were last subject to inventory or survey.		X		1,085/2,329
16	Asset Review Type Code	A code used to identify the type of asset review performed for the real property asset.		X		281/2,329

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